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TO AMEMBASSY OTTAWA IMMEDIATE

C O N F I D E N T I A L STATE 099292

E.O. 11652: GDS

TAGS: MILI, CA

SUBJECT: LOCKHEED LRPA--NOTE TO CANADIANS

1. DEPARTMENT HAS TRANSMITTED APRIL 23 NOTE TO CANADIAN EMBASSY RE PROPOSED SALE OF LOCKHEED LRPA TO GOC. TEXT OF NOTE WHICH HAS BEEN CLEARED BY DOD, TREASURY AND JUSTICE FOLLOWS: BEGIN TEXT-

THE SECRETARY OF STATE PRESENTS HIS COMPLIMENTS TO HIS EXCELLENCY THE AMBASSADOR OF CANADA AND HAS THE HONOR TO PROVIDE THE FOLLOWING STATEMENT OF THE UNITED STATES GOVERNMENT'S POSITION ON CANADA'S INTENDED PURCHASE OF 18 LOCKHEED P-3 LONG-RANGE PATROL AIRCRAFT AND ON THE PROPOSED CONTRACT BETWEEN THE CANADIAN GOVERNMENT AND THE LOCKHEED AIRCRAFT CORPORATION.

WITH RESPECT TO LOCKHEED'S OVERALL FINANCIAL VIABILITY, ITS ABILITY TO CONTINUE AS A CORPORATION AND TO FULFILL
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THE TERMS OF ITS PROPOSED CONTRACT WITH THE CANADIAN

GOVERNMENT, THE UNITED STATES EMERGENCY LOAN GUARANTEE BOARD (ELGB) AND THE UNITED STATES DEPARTMENT OF DEFENSE HAVE RECENTLY REVIEWED LOCKHEED'S FINANCIAL POSITION AND HAVE EXPRESSED CONFIDENCE IN LOCKHEED'S PROSPECTS. THE FOLLOWING FACTORS ARE RELEVANT:

1. LOCKHEED'S FINANCIAL PROJECTIONS APPEAR TO BE REALISTIC;
2. IT APPEARS THAT LOCKHEED WILL BE ABLE TO PAY BACK ITS 195,000,000 DOLLAR GUARANTEED LOAN BEFORE THE ELGB'S STATUTORY AUTHORITY EXPIRES AT THE END OF 1978;
3. LOCKHEED APPEARS TO BE FINANCIALLY HEALTHIER THAN SIX MONTHS OR ONE YEAR AGO;
4. WHILE RECENT PUBLICITY REGARDING PAYMENTS TO FOREIGN OFFICIALS MAY HAVE DELAYED THE SIGNING OF NEW CONTRACTS BY CERTAIN FOREIGN GOVERNMENTS, THE UNITED STATES GOVERNMENT IS UNAWARE OF ANY CONTRACTS HAVING BEEN CANCELLED AS A RESULT OF SUCH PUBLICITY.
5. APPROXIMATELY 60 PERCENT OF LOCKHEED'S SALES ARE TO THE UNITED STATES DEPARTMENT OF DEFENSE. NO SIGNIFICANT REDUCTION IS ANTICIPATED IN THE VOLUME OF THIS PROCUREMENT OR THE CASH FLOW RESULTING FROM IT.
6. L-1011 AIRLINE CUSTOMERS ARE BEGINNING TO REPORT IMPROVED TRAFFIC AND OPERATING RESULTS AFTER HAVING EXPERIENCED A VERY SEVERE INDUSTRY-WIDE RECESSION.

ALL THINGS CONSIDERED, IT IS THE PRESENT JUDGMENT OF THE UNITED STATES GOVERNMENT THAT THE PROSPECTS ARE FAVORABLE FOR LOCKHEED TO CONTINUE AS A VIABLE CORPORATION.

THE UNITED STATES GOVERNMENT SHARES WITH THE CANADIAN GOVERNMENT A STRONG INTEREST IN THE SUCCESSFUL COMPLETION OF THE PROPOSED CANADIAN PROCUREMENT OF 18 LOCKHEED LRPA AIRCRAFT. IN THE VIEW OF THE UNITED STATES GOVERNMENT, THE ACQUISITION OF THESE AIRCRAFT WILL SUBSTANTIALLY

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ENHANCE CANADA'S ASW PATROL CAPABILITY, IMPROVE NORTH AMERICAN DEFENSE ARRANGEMENTS, CONTRIBUTE TO NATO'S OVERALL SECURITY AND THUS IS IN THE BEST INTEREST OF THE UNITED STATES. THE PROPOSED CANADIAN PURCHASE WILL COMPLEMENT THE PURCHASE OF A LARGE NUMBER OF LOCKHEED MARITIME PATROL AIRCRAFT PLANNED BY THE UNITED STATES GOVERNMENT AND SHOULD WORK TO THE MUTUAL ADVANTAGE OF THE TWO GOVERNMENTS.

IN RECOGNITION OF THIS MUTUALITY OF INTEREST, THE UNITED STATES GOVERNMENT WILL FACILITATE THE CARRYING OUT OF THE LRPA CONTRACT BETWEEN THE LOCKHEED CORPORATION AND THE CANADIAN GOVERNMENT. TOWARDS THIS END THE UNITED STATES GOVERNMENT WILL FACILITATE, TO THE MAXIMUM EXTENT PERMISSIBLE UNDER UNITED STATES LAW, THE ACHIEVEMENT OF

THE CANADIAN INDUSTRIAL INVOLVEMENT PROVIDED FOR IN THE CONTRACT BY:

1. PERMITTING THE RENT-FREE USE OF UNITED STATES GOVERNMENT PRODUCTION AND RESEARCH PROPERTY SUBJECT TO THE NORMAL TERMS AND CONDITIONS GOVERNING SUCH USE,
2. PERMITTING A SHIFT IN THE MANUFACTURE OF MUTUALLY-AGREED SELECTED COMPONENTS FROM THE UNITED STATES TO CANADA, AND
3. AGREEING TO DUTY-FREE ENTRY INTO THE UNITED STATES OF CANADA-MANUFACTURED COMPONENTS INCORPORATED IN P-3 TYPE OF AIRCRAFT SOLD BY LOCKHEED TO CANADA OR OTHER COUNTRIES.

IF A SITUATION WERE TO OCCUR UNDER U.S. BANKRUPTCY LAWS INVOLVING VOLUNTARY OR INVOLUNTARY REORGANIZATION OR BANKRUPTCY OF LOCKHEED WHICH MIGHT AFFECT LOCKHEED'S CONTRACT PERFORMANCE, THE UNITED STATES GOVERNMENT WILL, TO THE MAXIMUM EXTENT PERMISSIBLE UNDER U.S. LAW, ACT WITH CANADA IN ALL MATTERS RELATING TO THE CANADIAN LRPA CONTRACT TO OBTAIN FOR CANADA ADVANTAGES AND CONSIDERATIONS NO LESS FAVORABLE THAN THOSE THAT MIGHT BE OBTAINED BY THE UNITED STATES WITH RESPECT TO PERFORMANCE OF ITS CONFIDENTIAL

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OWN DEFENSE PROCUREMENT CONTRACTS, IN THE FOLLOWING RESPECTS:

WITH RESPECT TO DELIVERY:

IN ITS DETERMINATION TO SEE THAT ITS AIRCRAFT AND THOSE OF CANADA ARE DELIVERED EXPEDITIOUSLY, THE UNITED STATES AUTHORITIES WILL MAKE EVERY EFFORT TO ENSURE THAT ALL MEASURES TAKEN TO OBTAIN THE PRODUCTION OF P-3 AND S-3 AIRCRAFT FOR THE UNITED STATES NAVY WILL ALSO BE APPLIED TO MAINTAIN FOR CANADA PRODUCTION OF LRPA IN ACCORDANCE WITH ITS PROPOSED CONTRACT WITH LOCKHEED, INCLUDING AN EQUITABLE DOVETAILING OF THE PRODUCTION OF ITS P-3 AIRCRAFT AND THE CANADIAN LRPA TO ACHIEVE DELIVERY ON A SCHEDULE AS CLOSE AS POSSIBLE TO THAT PROVIDED FOR IN

THEIR RESPECTIVE CONTRACTS WITH LOCKHEED.

WITH RESPECT TO PRICE:

IN THE EVENT OF A REQUIREMENT TO RENEGOTIATE THE PRICE OF THE CANADIAN LRPA THE UNITED STATES AUTHORITIES WILL SEEK FOR CANADA TREATMENT NO LESS FAVORABLE THAN THAT WHICH THE UNITED STATES DEPARTMENT OF DEFENSE OBTAINS WITH RESPECT TO ITS OWN DEFENSE PROCUREMENT CONTRACTS. IN THIS

REGARD THE UNITED STATES AUTHORITIES WILL ENDEAVOR TO ENSURE THAT ANY RENEGOTIATION OF THE LRPA PRICE WILL BE BASED ON DIRECT COSTS AND REASONABLE INDIRECT COSTS AND PROFITS ASSOCIATED WITH SUBSEQUENT PRODUCTION OF THE CANADIAN LRPA.

WITH RESPECT TO CANADIAN INDUSTRIAL INVOLVEMENT:

THE UNDERSTANDING OF THE UNITED STATES GOVERNMENT WITH REGARD TO FACILITATING CANADIAN INDUSTRIAL INVOLVEMENT SET OUT IN SECTION C(1,2,3) ABOVE, WILL CONTINUE TO APPLY.

DEPARTMENT OF STATE,

WASHINGTON, APRIL 23, 1976 -- END QUOTE. SISCO
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